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September 1, 2001

Subject: Status of Southern Health Systems, Inc.

Dear Health Care Provider:

As you are perhaps aware, control of Southern Health Systems, Inc. (SHS) was assumed by the Alabama Department of Insurance on August 24, 2001. Then, on August 28, 2001, under a court order issued in the Circuit Court of Jefferson County, Alabama (Civil Action No. CV 01-5259), the Department of Insurance was directed to liquidate SHS in accordance with Alabama law.

Unfortunately, this action is similar to a bankruptcy. This letter serves to inform you of certain responsibilities you have as it relates to your status as a Participating Provider. Please carefully observe the following, and retain this letter for your records:

What about claims that have not been paid by SHS?

Participating Providers. We regret to inform you that based on our initial analysis, it appears unlikely that any Participating Provider claims will be paid by SHS. We will continue to inform you of our progress in this regard during the coming weeks.

In the meantime, please be aware that under Alabama law, a SHS Participating Provider may not bill SHS enrollees for Covered Services rendered in excess of any applicable copayments, deductibles or coinsurance amounts. Under the Liquidation Order, providers under contract are enjoined by the Receivership Court from collecting or attempting to collect payment from enrollees. If a Participating Provider seeks payment directly from a SHS enrollee for services rendered during any period in which a Participating Provider Agreement among SHS and the provider was in effect, the provider is not only violating a contractual obligation, but is also violating Alabama laws and regulations designed to protect consumers rights. We have requested that enrollees notify us in the event they are subject to any form of collection activity from SHS Participating Providers.

Non-Participating Providers. Certain claims from non-participating providers may be settled. We will soon be in contact with such providers regarding settlement terms and conditions.

Unless notified otherwise, all providers should continue to submit claims to SHS as in the past. We should point out that our ability to efficiently perform the liquidation process will be hindered by handling multiple claim submissions. Please use best efforts to avoid filing any claim more than once.

What if certain health care providers deny to render treatment?

Though Participating Providers may not be paid for Covered Services rendered to SHS enrollees, most are under a contractual commitment to provide such services without regard to payment. In addition, there are laws in Alabama, as in most states, which require prompt and appropriate delivery of medical services under certain circumstances, particularly those episodes that may involve urgent or emergent treatment. We have requested that enrollees notify us in the event they believe that they are unfairly or inappropriately denied care due to the status of SHS.

OUR ROLE IS TO ASSURE PROTECTION FOR THE SHS ENROLLEE. ACCORDINGLY, WE MUST MAKE YOU AWARE THAT WE INTEND TO PURSUE RECOURSE IN THE RECEIVERSHIP COURT AGAINST THOSE PROVIDERS WHO: (A) CHOOSE TO SEEK PAYMENT FROM ENROLLEES IN VIOLATION OF THE INJUNCTIVE PROVISIONS OF THE LIQUIDATION ORDER; OR (B) DENY MEDICAL CARE TO SHS ENROLLEES IN VIOLATION OF THE PROVIDERS' CONTRACTUAL OBLIGATIONS.

What are the enrollees coverage options?

Blue Cross and Blue Shield of Alabama (BCBSAL) has agreed to offer a coverage option to all current SHS enrollees. They will soon receive specific information and instructions directly from BCBSAL. In addition, information regarding this offer may be obtained from the websites of either BCBSAL (<http://www.bcbsal.org>) or the Alabama Department of Insurance (<http://www.aldoi.org>). If a SHS enrollee accepts this option during an "Open Enrollment" period ending September 30, 2001, the coverage effective date will be retroactive to August 28, 2001. If your patients express concern over the status of SHS, please encourage them to call the BCBSAL Customer Service Department at 1-800-292-8868. It is important that they understand they must follow the instructions provided by BCBSAL in order to assure coverage. In any event, we strongly encourage all SHS enrollees to take action to protect their health coverage needs. We have notified all SHS enrollees that under any circumstance their coverage with SHS shall end as of September 30, 2001.

In summary, our objective in carrying out the liquidation of SHS is to assure that the SHS enrollees are protected to the fullest reasonable and legal extent. We will provide additional information and instructions regarding claims issues as soon as practical.

Sincerely,



Denise B. Azar
Receiver, Southern Health Systems, Inc.

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